

THE BOSTON HOUSING PARTNERSHIP, INC.

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Initial Material
Describing the Partnership's
Demonstration Rehabilitation Program

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BACKGROUND

The Boston Housing Partnership, Inc. (BHP) evolved from discussions among a number of groups and individuals who shared a common concern about deteriorating housing in the City of Boston. These community leaders, representing both public and private interests, were specifically concerned about the shortage of decent and affordable rental housing in the face of escalating demand. They recognized that while there was no shortage of deteriorated, under-utilized and abandoned buildings that could be rehabilitated as moderately priced housing, the economics of doing so made it virtually impossible for the private sector to meet this challenge alone. Dwindling federal resources for housing limited what the public sector could commit to solving the problem, the causes of which are deeply rooted in social, economic and demographic conditions which are beyond the control of local policy makers. The group further realized that existing property owners faced problems just covering operating expenses with current rents and could not increase those rents to cover the cost of upgrading, even where they had the inclination to do so.

PROBLEM

This imbalance between income and expenses -- the cost of providing housing and the rents the market is willing or able to pay -- leads to conversion to more profitable use (e.g. condominiums) in strong market areas. In areas of weak market demand it precipitates a cycle of decline that begins with physical deterioration. Mortgage and tax delinquency occurs, and deterioration escalates as the economics of the property indicate that its debts exceed its value. Rental income is used simply to generate as great a return to the owner for as long as mortgage or tax foreclosure can be forestalled.

Vacancies, non-payment of rent (often legally based on code violations), vandalism, legal actions by residents and creditors continue and accelerate the process. Abandonment and arson -- or arson then abandonment -- represent the final stage of decline.

There is currently no effective combination and coordination of public and private resources at work to intercept this cycle. During the last decade some 20,000 housing units ran through this cycle. Public funds were used to demolish over 10,000 such units and a similar number was totally rehabilitated and rerented under increasingly costly federal subsidized housing programs.

The fact that the City replaced every unit lost to demolition during this period with two new -- or newly rehabilitated -- ones diverted attention from the underlying problem. Now the major subsidy programs that enabled such production have been virtually eliminated and the remaining programs are simply too limited in both the amount and type of available resources to make a significant contribution to the rental housing supply in Boston.

PROPOSAL

The initiative that grew out of these discussions called for a partnership between the City, financial institutions, foundations, state agencies, and a variety of community organizations. This new collaborative organization, the BHP, will do three things: 1) harness the resources and experience of all parties involved, 2) develop strategies, programs and proposals to address the problem, and 3) implement solutions. It is hoped that by marshalling such resources the Partnership's efforts -- at some point -- can interrupt the cycle of decline, and that this turn around can be effected with limited assistance resources.

The Partnership's first project will be a demonstration program to rehabilitate 500 units of deteriorated housing and to return them to the market for low and moderate income tenants over a period of 18-24 months. The program goal is to accomplish this through the use of community based non-profit organizations as sponsors. It is estimated that the average acquisitions and rehabilitation cost will be approximately \$25,000 per unit. Technical assistance will be provided to interested community sponsors to help them focus on what such a commitment entails, to identify and acquire potentially suitable properties, and to assess their own capacity to maintain viable housing over time, among other concerns. It is intended that this demonstration program, coupled with the continuing focus of major public and private actors on the problems of housing deterioration, will serve as the basis for a major attack on the problem over a period of years. The proposed demonstration program ensures that the Partnership's efforts will serve those lower income households who are most impacted by decline and abandonment.

SCOPE OF DEMONSTRATION PROGRAM

General:

The design of the demonstration program reflects the resources that the Partnership has identified as "likely to be available." Because such resources are obviously limited, this demonstration cannot be all things to all people. Certain properties will be too costly to rehab and others may be too costly to acquire or too difficult to manage. Projects will vary depending on a number of factors, e.g. available stock, sponsor capacity and neighborhood need.

However, certain common elements are essential to the demonstration:

- A. The Housing Stock: The focus must be on "partially deteriorated housing" where acquisition and total rehabilitation costs do not exceed \$25,000 in order to assure feasibility. Priority will also be given to development packages totalling more than 30 units in size in order to sustain the complex development and management effort required with the finite pool of technical assistants that the Partnership can provide.
- B. Households to be Served: The Partnership is committed to serving Section 8 Eligible households, i.e, those earning less than 80% of the median for the metropolitan area (\$21,750 for a family of four.) It is expected that some state rental assistance subsidies will be available to ensure that lower income households can be served while maintaining financial viability of the project.
- C. Development Sponsors: Community-based organizations will sponsor and have long term controlling interest in all developments to maximize the resources available to the demonstration and to provide for neighborhood based origination and direction.
- D. Partnership Role: The Partnership will secure program commitments that enable the individual demonstration projects to be financially viable. It will provide technical assistance to sponsors in putting together proposed projects and provide a full range of development services to sponsors on projects selected for funding. It will evaluate all proposed projects, select the most viable ones for funding, and then have overall administrative responsibility for seeing that the selected projects proceed according to specified schedule.

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Specific:

Financial commitments for the demonstrations program are currently being secured. The City of Boston has already committed \$1,000,000 of Year VIII Community Development Block Grant funds to the Partnership and is considering a similar commitment from Year IX funds depending on BHP's progress. The Partnership anticipates an overall budget of \$17 million, 95% of which will go toward direct development costs. The Partnership will have only a skeletal staff. Some of the funding proceeds will be used to establish a project investment fund to reduce rents. It is expected that approximately \$1,000,000 will be contributed by corporations and foundations, both local and national. Two and a half million dollars would come from public sources such as the CDBG or UDAG programs. A total of approximately \$3,000,000 would come from capital contributions of investor limited partners who will have 99% profit and loss interest for tax shelter benefits in limited partnerships controlled by the sponsoring organizations. These syndication proceeds flow into the projects over a four to five year period. Two to four year bridge loans (against installments of investor capital) will be sought so that these funds are available as needed during construction and rent-up. The remaining \$10 million would be debt, in the form of long term loans from such agencies as the Massachusetts Housing Finance Agency, or the Massachusetts Government Land Bank.

This budget breaks down to a total per unit development cost of about \$30,000. Program viability will require additional cost reducing techniques, such as: 1) reduction of the interest rate on long term financing through some means, possibly the State's 13A -- or some successor -- Interest Reduction Program; 2) reduction or elimination of acquisition costs, possibly through the use of the tax foreclosure process, or conveyance of existing City-owned properties; 3) elimination of developers' profit; and 4) reduction of construction and operating costs through efficient design and management.

TIMING OF DEMONSTRATION PROGRAM

The Partnership has established a rigorous and ambitious time frame for the demonstration. At its first board meeting (February 15, 1983) directors accepted and ratified the basic design of the demonstration program as outlined above and authorized the Executive Director and officers of the BHP to take all steps necessary to develop and implement that program. Bonnie Heudorfer, on loan for six months from the Community Investment Department of The First National Bank of Boston, was retained as Executive Director and Greater Boston Community Development, Inc. (GBCD) a non-profit corporation with an eighteen year track record in the field of low and moderate income housing, was retained to provide technical assistance both to the Partnership and to interested community sponsors.

The next steps are expected to be phased as follows:

March 1983 - BHP applies for and accepts funding commitments. With consultant, disseminates information to community organizations.

Consultant begins assistance in evaluating feasibility of potential properties. Mortgage and equity financing structures will be firmed up and criteria for projects established.

April 1983 - Request for proposals issued.

May-July 1983 - Preparation of proposals with appropriate technical assistance by GBCD.

August 1983 - Evaluation of proposals and selection of sponsors by Partnership Board with staff assistance.

September - December 1983 - Development assistance to sponsors to prepare for project undertaking including: coordination of plans, specifications, budgets and contracts for rehabilitation; preparation of applications required for firm financing commitments and approvals; pooling of projects for equity financing.

January - June 1984 - Acquisition of properties by sponsors, loan closings, actual rehabilitation, rent-up and occupancy.

